

Message Text

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ACTION OPR-02

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EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04

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TAGS: ECON, ALOW, JM

SUBJECT: OPPOSITION FORSEES 50 PER CENT INFLATION IN 1978

REF: KINGSTON 6953

1. THE OPPOSITION SPOKESMAN ON FINANCE, SENATOR BASIL BUCK, HAS ISSUED A STATEMENT IN WHICH HE EXPRESSED ALARM BOTH AT THE RAPID RISE IN JAMAICA'S COST OF LIVING (AS REFLECTED BY THE CONSUMER PRICE INDEX) AS WELL AS AT THE ESCALATING DETERIORATION OF THE ECONOMY. THE TEXT OF THE PRESS RELEASE FOLLOWS. ALL ITALICS ARE THOSE OF SENATOR BUCK.

2. BEGIN TEXT: "THE OPPOSITION VIEWS WITH INCREASING ALARM THE RAPIDLY ESCALATING DETERIORATION OF THE ECONOMY AND THE MASSIVE INCREASES IN THE COST OF LIVING NOW ESTIMATED TO BE OVER 50 PER CENT THIS YEAR.

THE PEOPLE NOW FACE AN ECONOMY IN RUIN. AN ECONOMY CAUGHT IN A VICIOUS CIRCLE OF CONTINUOUS DEVALUATIONS AND MASSIVE TAXATION GENERATING MASSIVE INFLATION - WHILE PRODUCTION DECLINES DRAMATICALLY.

FOR THE FIRST TWO MONTHS, MAY AND JUNE, OF THE NEW
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ECONOMIC PACKAGE THE CONSUMER PRICE INDEX HAS INCREASED BY A MASSIVE 21.6 PER CENT.

IN JUNE ALONE THE FIRST FULL MONTH WITH THE EFFECTS OF THE NEW ECONOMIC PACKAGE, THE INDEX WENT UP BY A SUBSTANTIAL 13.3 PER CENT, ALMOST THE SAME AS THE 14.0 PER CENT INCREASE FOR THE FULL YEAR OF 1977.

IN OTHER WORDS, IN ONE MONTH - JUNE - THE LEVEL OF INFLATION
WAS EQUIVALENT TO THE FULL YEAR OF 1977.

FOR THE SIX MONTHS TO JUNE 1978 THE CONSUMER PRICE INDEX
HAS INCREASED BY A MASSIVE 30 PER CENT.

I NOW ESTIMATE THAT INFLATION AS REFLECTED BY THE CONSUMER PRICE INDEX
WILL AMOUNT TO AT LEAST 50 PER CENT THIS YEAR. THIS TO
BE FOLLOWED BY A CYCLE OF ANNUAL INCREASES OF AT LEAST
25 PER CENT OVER THE NEXT FEW YEARS.

IN FACT, IF THE PRESENT APPROACH TO ECONOMIC POLICY
CONTINUES, WE MIGHT BE ON A PERMANENT HIGH INFLATION CYCLE
THAT NEVER ENDS.

THE OPPOSITION CALLS ON THE GOVERNMENT TO ROLL BACK PRICES
ON BASIC ITEMS WHICH FORM THE BULK OF THE JAMAICAN DIET,
BEFORE THE BURDEN OF 50 PER CENT INFLATION ON THE POOR LEADS
TO FAR REACHING SOCIAL AND POLITICAL IMPLICATIONS, AS THEY
ARE PRICED OUT OF THE MARKET." END TEXT

3. COMMENT: AS OUTLINED IN REFTTEL, THE CONSUMER PRICE RISE
IN THE MONTH OF JUNE 1978 WAS 13.3 PER CENT OVER MAY'S LEVEL.
THIS 1 MONTH INCREASE WAS ALMOST EQUIVALENT TO THE 1977
ANNUAL RISE FOR THE CONSUMER PRICE INDEX ALTHOUGH THE INFLATION
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RATE HAS BEEN ACCELERATING SINCE MID 1977. HOWEVER, THE FURTHER
MAJOR DEVALUATION OF THE JAMAICAN DOLLAR IN MAY 1978 ACCOMPANIED
BY THE GOVERNMENT'S NEW TAXATION MEASURES, PARTICULARLY THE
CONSUMPTION AND EXCISE DUTIES, AND THE LIFTING OF CERTAIN
PRICE CONTROLS, HAVE CONTRIBUTED TO THE DRAMATIC RISE IN
PRICES. OF GREAT CONCERN ALSO ARE THESE ADDITIONAL TAXES FOR
THEY HAVE NOW PLACED MANY COMMODITIES BEYOND THE REACH OF MOST
LOW-INCOME JAMAICANS, THEREBY REDUCING DEMAND SEVERELY FOR
THESE COMMODITIES AND - MOST SERIOUSLY - MAY NOT BE SUCCESSFUL
IN RAISING REVENUES SO CRITICALLY NEEDED TO MEET THE GOVERNMENT'S
BUDGET REQUIREMENTS. SHOULD THE OPPOSITION LEADER'S
FORECAST THAT A 50 PER CENT RISE IN THE CONSUMER PRICE INDEX
PROVE ACCURATE, PRESSURES ON THE GOVERNMENT TO CHANGE ITS POLICY
ON WAGE GUIDELINES AND EMPLOYMENT PROGRAMS WILL BE INTENSE
INDEED. PROSPECTS FOR DESPERATELY NEEDED INCREASED PRODUCTION
AND EXPORTS WILL DEAL A HEAVY BLOW IF DOMESTIC DEMAND
COLLAPSES SIMULTANEOUSLY WITH EXPORT COMPETITIVENESS AS
PRICES OUTPACE BENEFITS DERIVING FROM DEVALUATION.
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